

## CHAPTER 2

# MANAGEMENT

✓ Management is a group activity to achieve the desired goals by using available resources effectively & efficiently

### 2.1 MEANING

Managing is one of the most important activities of human life. To accomplish aims that could not be achieved individually, people started forming groups. Managing has become essential to ensure the coordination of individual efforts. Management applies to all kinds of organizations and to managers at all organizational levels. Principles of management are now used not only for managing business but in all walks of life viz., government, military, social and educational institutions. Essentially, management is same process in all forms of organization. But it may vary widely in its complexity with size and level of organization (Management is the life giving element of any organization.)

Definitions suggested by some of the management experts are presented below:

**Henri Fayol:** "Management is conduct of affairs of business, moving towards its objective through a continuous process of improvement and optimization of resources".

**Koontz:** "Management is the process of designing and maintaining an environment in which individuals, working together in groups, efficiently accomplish selected aims".

✓ **Mary Parker Follett:** "Management is the art of getting things done through people".

✓ **George R. Terry:** "Management is a process consisting of planning, organizing, actuating and controlling, performed to determine and accomplish the objectives by use of people and resources".

**ILO:** "Management is the complex of continuously coordinated activity by means of which any undertaking administration/public or private service conducts its business".

**Lawrence A. Appley:** "Management is guiding human and physical resources into a dynamic, hard hitting organization until that attains its objectives to the satisfaction of those served and with a high degree of morale and sense of attainment on the part of those rendering the service".

## 2.2 NATURE AND CHARACTERISTICS OF MANAGEMENT

As seen above, the production process involves land, labour, capital, organization and entrepreneurship. So long as these factors remain separated, there is no possibility for production. Production is the result of their combined efforts. Thus success of production depends on their effective combination and cooperation. In today's complex business organization, it has become a difficult and challenging task to strike an effective balance of and harmony of various factors of production. This calls for a special skill, knowledge and characteristics to seek their fullest cooperation to achieve the objectives set by an enterprise. Such skills and knowledge is the management.

Based on vast experience it has been found that the analysis of management is facilitated by a useful and clear organization of knowledge.

The following are some of the important characteristics of management.

- 1. It should be stable.
- 2. It should be applicable to all kinds of organizations.
- 3. It is transparent.
- 4. Its approaches are to be clear and goal oriented.
- 5. It should be simple yet effective.
- 6. It should be responsive to many external elements like economic, technological, social, political and ethical factors that affect the areas of operation.
- 7. It should have well defined goals, and effective means to accomplish the goals.
- 8. It should have good planning, organizing, staffing, directing and controlling functions.
- 9. It should provide conducive atmosphere of work.

## 2.3 SCOPE

(The management is a must for every organization) The existence of management ensures proper functioning and running of an enterprise. (Management plans the activities, coordinates and utilizes the available resources effectively and efficiently at minimum cost.) Every business needs direction. This direction is given by the management. The resources of production are converted into production or services. (The scope of management is not limited only to business organization, but it is extended to business establishments, hospitals, educational institutions, government officers, service organizations, security organization, financial organizations, stores management etc. The nature of functions of management may differ from one type of organization to another, but all these form the essence of management.)

As discussed earlier, the management is not limited to only industries, but its scope can be extended to the following important areas of life.

- [ Developing management ]
- Distribution management
- Financial management
- Marketing management
- Personnel management
- Production management
- Office management
- Transport management
- Purchase management
- Sales management
- Supply chain management
- Business management- (Like Hospital management, Hotel management, Educational institute management, Stores management etc.)

Management can be applied in any area of business and life. Its scope starts from self management to home management and to the management of big office, industry, organization of a government etc.

#### **2.4 FUNCTIONAL AREAS OF MANAGEMENT**

Though many authors have defined several functions of management, there are five essential and well accepted functions of management. They are:

- 1 ➤ Planning.
- 2 ➤ Organising.
- 3 ➤ Staffing.
- 4 ➤ Directing (leading) and
- 5 ➤ Controlling.

① **Planning:** Planning is an executive function that is referred to as decision making. It involves missions and objectives and the actions to achieve them. This requires decision making, that is, choosing future courses of action from available alternatives. This involves the following:

- 1 ➤ Setting short and long term goals for organization.
- 2 ➤ Selecting objectives, strategies and policies for accomplishing the planned goals.

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3 ➤ Deciding in advance what to do, how to do, who has to do, when to do and where to do.

4 ➤ Planning bridges the gap from where we are now to where we want to be in future.

(2) **Organising:** Organising is a part of management that involves in establishing an intentional structure of roles for people to fill in an organization. To organize a business well, it is required to provide all the useful things for its proper functioning. They are raw materials, tools, capital and personnel. The purpose of an organization structure is to help in creating an environment for human performance. This involves in:

1 ➤ Determination of activities required to achieve goals.

2 ➤ Grouping these activities into department.

3 ➤ Assigning such groups of activities to managers.

4 ➤ Forming delegation of authority.

5 ➤ Making provisions for coordination of activities.

(3) **Staffing:** Staffing is considered as an important function which makes provision for man power to fill different positions. It involves in building the human organization by filling, and keep filling the staff. This is done by identifying work-force requirements, taking inventory of people available, recruiting new staff, selecting, placing, promoting, apprising, planning their career, training the staff to accomplish their tasks effectively and efficiently. This involves in:

1 ➤ Finding the right person for right job.

2 ➤ Selecting the personnel.

3 ➤ Placement, training and developing new skills required for present and future jobs.

4 ➤ Creating new positions.

5 ➤ Apprising the staff and planning their growth and promotions etc.

(4) **Directing:** After planning, organizing and staffing, the next important function of management is directing or leading the people towards the defined objectives. Directing involves three sub-functions namely communication, leadership and motivation. Communication is the process of passing information and understanding from one person to another. Leadership is the process by which a manager guides and influences the work of his subordinates. Motivation means arousing desire in the minds of employees of an organization to perform their best. If properly motivated, the employees will put their best efforts with dedication, loyalty and carry out the assigned task effectively. There are two types of motivations viz., financial and non-financial. Financial motivations

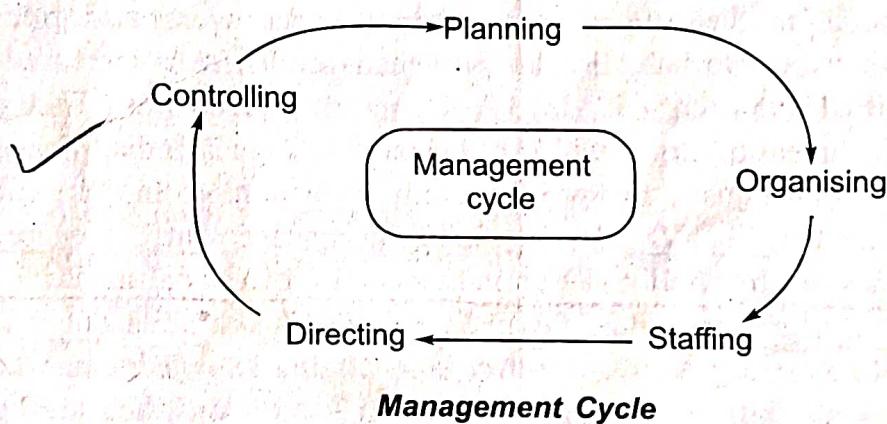
6 Co-ordinating   
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 Management   
 9 Decision making 
 10 Forecasting

are in the form of salary, bonus, profit-sharing, rewards etc. The common non-financial motivations are job security, promotions, recognition, praise, felicitation etc.

5 Controlling: Controlling is measuring and correcting of activities of subordinates to make sure that the work is going on as per the plans. It measures performance against goals and plans, shows where short falls or deviations exist and takes necessary corrective actions to achieve the goals. Controlling generally relates to the measurement of achievement. This involves three elements.

- 1 ➤ Establishing standards of performance.
- 2 ➤ Measuring performance and comparing with established standards.
- 3 ➤ Taking necessary corrective action to meet the set standards.

With accomplishment of this function, the "Management Cycle" is said to be complete.



## 2.5 MANAGEMENT AS A SCIENCE, ART OR PROFESSION

Managing, like any other practice – whether medicine, music composition, engineering, accounting or even cricket – is an art. It is a know-how. It is doing things in the light of the realities of a situation. Under 'art' one normally learns the "how" of a phenomenon. It is the art of getting things done through others in dynamic and mostly non-repetitive situations.

Science is an organized knowledge. A discipline can be called scientific if its methods of inquiry are systematic and empirical, information can be accumulated and analysed and results are commutative and communicable. The essential feature of any science is the application of scientific methods to the development of knowledge. Being 'systematic' means being orderly and unbiased. All the scientific information collected first as raw 'data' is finally arranged in order and analysed with the help of statistical tools. Science is also cumulative in that what is discovered is added to that which has been found.

before. We learn from past mistakes and go in right direction in future. On the basis of the above discussions of science, it can be accepted that management is also a science.

It is seen that management is partly an art and partly a science. Management does not possess the characteristics of a profession. A profession is expected to have organized and systematic knowledge, formalized methods of acquiring training and experience, ethical code to regulate the behaviour of the members of the profession, charging of fees based on service etc. Unlike medicine and law, the management does not have any fixed norms of managerial behaviour. There is no uniform code of conduct or licensing of managers. Lawyers and doctors take up profession after obtaining a valid academic qualification whereas a manager job is not restricted to individuals with a special academic degree only. Based on this, it can be concluded that management is not a profession. However, the present trend is towards the professionalisation of management.

Nowadays, it has become essential to acquire management degrees or training in management to be called as good manager. There is increased demand for qualified managers with M.B.A degree after graduation. This gave scope for establishment of large number of business schools in India. Managing a business is no longer just a matter of a family or institution. In this contest, one should remember Peter Drucker's opinion on management. "A degree in management does not by itself make an individual a professional manager any more than does a degree in philosophy make an individual a philosopher". By insisting on holding a degree, we are over emphasizing knowledge and completely overlooking skill. This leads to loss of good and skilled managers who do not have required degree. There have been good examples of efficient managers without any professional managerial degree. Some of them are, Ford of Ford Motors, Bill Gates of Microsoft, Jemshedji Tata, Birla, Dhiru Bhai Ambani of Reliance group etc.

But nowadays, management has become a profession than art or science.

## 2.6 MANAGEMENT AND ADMINISTRATION

There is lack of concurrence among management writers over the meaning and use of the words management and administration.

One group of management writers feels that administration involves "thinking". It is a top level function that centers around the preparation of plans, rules, policies and objectives of an organization. Whereas management involves "doing" and is a lower level function, concerning with execution and direction of policies and operations. Hence, administration is more important at lower levels.

Another group of management writers feels management as comprehensive generic term that includes administration. Management is regarded as comprehensive generic function covering entire process of planning, organizing, directing and controlling. Administration is regarded as a branch of management that comprises of two functions – planning and controlling. According to them, the function of management is divided into two categories – the upper level management usually called as administrative management and the lower level management which is termed as operative management.

According to Peter Drucker, the basic difference between management and administration lies in use of these terms in different fields. According to him, managing of business enterprises is called management and managing non-business organizations is called administration. Hence financial performance plays key role in management. But in managing non business organizations like educational institutions, government offices, military etc., administration is more priority than financial decisions.

Administration is the function in industry concerned with determination of the corporate policy, the coordination of finance, production and distribution, the settlement of compass of the organization under the ultimate control of the executives".

"Management is the function in industry concerned with the execution of polity within the limits setup by the administration and the employment of the organization for the particular objects set before it". (Oliver Sheldon)

"Administration is primarily the process and the agency used to establish the object or purpose which an undertaking and its staff are to achieve, secondarily, administration has to plan and stabilize the broad lines of principles which will govern action. These broad lines are in turn called policies. Management is the process and the agency through which the execution of policy is planned and supervised". (G.E. Milward)

"Administration is that phase of business enterprise that concerns with overall determination of institutional objectives and the policies necessary to be followed in achieving those objectives. Administration predetermines the specific goals and lays down the broad areas within which those goals are to be attained. Administration is a determinative function, management on the other hand is an executive function – which is primarily concerned with the carrying out of the broad policies laid down by the administration. (William R. Sprigal)

Thus administration is a "thinking" function and management is a "doing" function. According this concept, managers get salary and administration staff get dividends.

Administration determines the policies upon which the enterprise is to be conducted while the function of management is to carry out the policies that are laid down by the administrative group.

The differences between administration and management are listed below:

Characteristic	Administration	Management
1. Main functions	Planning, Organising and Staffing	Leading, motivating and controlling.
2. Status	Acts as owner	Acts as an agency
3. Skills	Requires good administrative skills	Requires more technical skills.
4. Level in the organization	Top level	Lower level
5. Position	Managing Director, Owner, CEO, etc.,	Managers, Supervisors, Foremen etc.,
6. Objectives	Makes the policies, objectives and goals to be achieved.	Implements the plans and policies
7. Involvement	No direct involvement in production or services	Directly involves in the execution of plans and achieving goals.

## 2.7 ROLES OF MANAGEMENT

Manager in any organization plays variety of roles responding to a particular situation. The three important roles played by a manager are Interpersonal roles, Decision roles and Informational roles.

- (i) **Interpersonal roles:** These includes figurehead, leader and liaison roles:
- (a) In figurehead role, the manager will perform some duties that are casual and informal ones like, receiving and greeting visiting dignitaries, attending to social functions of employees, entertaining customers by offering parties and lunches etc.
- (b) As a leader, managers motivate, direct and encourage his subordinates. He also reconciles the needs with the goals of the organization.
- (c) In the role of liaison, the manager works like a liaison officer between top management and the subordinate staff. He also develops contacts with outside people and collects useful information for the well being of the organization.

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(ii) Decision roles: There are four decision roles played by a manager. They are resource provider, arbitrator, entrepreneur and negotiator.

- (a) As a resource allocator, the manager divides the work, provides required resources and facilities to carryout the allocated work and delegates required authority among his subordinates. He decides who has to do what and who gets what.
- (b) As a disturbance handler, a manager works like a problem solver. He finds solutions of various un-anticipated problems both within and outside the organization.
- (c) As an entrepreneur, a manager continuously looks for new ideas and tries to improve the organization by going along with changing work environment.
- (d) He also acts as a negotiator negotiates with the employees and tries to resolve any internal problems like trade agreements, strikes and grievances of employees.

(iii) Information roles: A manager plays as monitor, spokesman and disseminator.

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- (a) A manager monitors his environment and collects information through his personal contacts with colleagues and subordinates.
- (b) As a spokesman, he communicates the information/goals of organization to his staff, and the progress of work to his superiors. He also communicates the performance of company to shareholders and the rules and responsibilities to his subordinates.
- (c) As a disseminator, the manager passes some of the information directly to his subordinates and to his bosses.

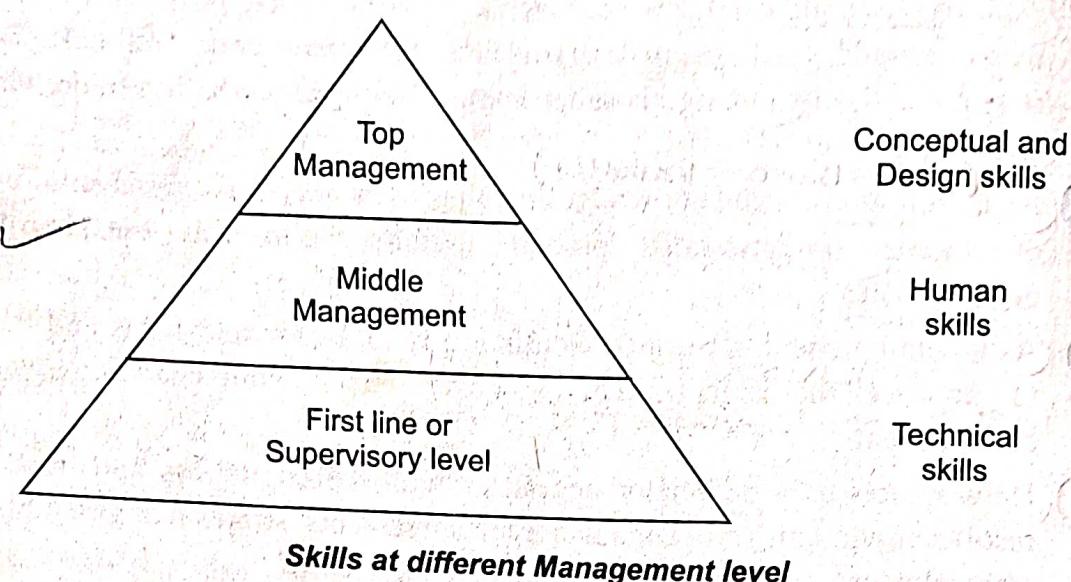
## 2.8 LEVELS OF MANAGEMENT

Although all managers perform almost the same functions of management planning, organizing, directing and controlling, there are levels among them. These are top management, middle management and first line or supervisors. The top management consists of Chairman, Directors, Company Presidents, Vice-Presidents, CEO's. These are the people who make policies for the company, set goals and targets. They should possess conceptual and design skills.

Middle management is essentially a vast and diverse group that include finance manager, sales manager, marketing manager, personnel manager, departmental heads etc.

The lower level managers are the supervisors and foremen. They are basically one step above the workers.

The various levels and skilled required at different management levels are shown below.



## 2.9 DEVELOPMENT OF MANAGEMENT THOUGHT

Management has emerged as a powerful and innovative force on which the today's society depends for material support from a unrecognized situation in the past one or two centuries. Seventeen and Eighteen centuries had seen Industrial Revolution. Lots of inventions and new technologies had emerged. The importance of management was focused. Division of labour concept was evolved. Importance of planning was identified. But management as a separate field of study had emerged only during early 20th century when new industrial era began. Business organizations had a stage shift from ownership towards joint stock companies. As an answer to the problems like insufficient systems, inefficiency of labour and discrepancy in wage payment, "management" has been recognized as a separate and important field of study. Subsequently, management has evolved as a scientific discipline of study and practice.

The evolution of management can be divided into two parts – Early management approach and Modern management approach.

## 2.10 EARLY MANAGEMENT APPROACHES

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History of the management is as old as a man. Evidence of well organized principle of management can be seen in ancient Greece and India. Those Kings used the concepts of management like planning, organizing, leading and controlling the various activities.

The process of early management approaches are:

- Psychological development

# **PLANNING**

## **3.1 NATURE OF PLANNING**

Planning is the most basic function of management. It is referred to as "deciding in advance" as to what to do, how to do, when to do and who has to do it etc. It is an intellectual process, which requires a manager to think before acting. It is nothing but thinking in advance. As regarded by Koontz and O'Donnell, planning is a continuous process. A manager should continuously watch the progress of the plans like a navigator who constantly checks where his ship is going in the vast ocean. Planning involves selection of objectives and goals and determines the ways and means of achieving them. Thus planning bridges the gap from where we are to where we want to be. A plan is to be rigid in the sense that it should not be modified or altered under the influence of local disturbances. A plan should be flexible to change to adapt to the changing situating without undue cost. This calls for flexibility in the areas like technology, market, finance, personnel and organization. Planning is vital at all levels of an organization. Top level managers are concerned with long range planning involving 2 to 5 years, middle level managers are concerned with medium range planning involving few months to one year and lower level managers are concerned with planning the activities of daily or week or upto a month, where as a worker plans his day's work.

Nature of planning indicates essential quality or general characteristics of planning. Any planning involves four essential qualities:

- (i) It must contribute to accomplish purpose and objectives.
- (ii) It must be considered as parent exercise in all processes.
- (iii) It must spread through all management functions and
- (iv) It must be efficient in such a manner so as to achieve the designed goals at the least cost.

Planning is non-static and is basically a discrete exercise. It is dynamic in nature. It is a blue print to which the accomplishment must confirm.

## **3.2 IMPORTANCE OF PLANNING**

Without planning, business decisions would become difficult. Planning is the beginning of all other functions of management. Planning is important because:

- (i) It overcomes uncertainty and change and minimizes risk.
- (ii) It facilitates effective control.
- (iii) It focuses attention and concentration only on the objectives of enterprise.
- (iv) It makes economic operation and leads to success.
- (v) It forms the bridge between the present and the future.

#### **(i) Uncertainty and minimize risk**

In the today's complex organizations, decision making cannot be relied only upon intuition, planning plays a vital role in decision making in such complex situations. Planning provides logical facts and procedure to managers for making decisions. This logical decision making based on plans to organization minimizes uncertainty and risk. In a developing country like India, with rapidly changing social and economic conditions, planning helps the managers to cope up with uncertainty and risk.

#### **(ii) Effective Control**

Planning sets goals, targets and means to accomplish these goals. These goals and plans become standards or bench marks against which performance can be measured. Thus good plans help effective control on the activities.

#### **(iii) Focuses attention and concentration on the objectives of the enterprise**

Planning helps the manager to focus their attention on the goals and activities of organization. This makes the entire organization to walk towards the goals and create coordination in accomplishing the goals.

#### **(iv) Economic operation and leads to success**

Mere planning does not ensure success, but planning leads to success. This is because if the work is planned in advance, there will be no confusions arising and things will happen as per plan and achieve goals. This results in economical operation and reduces uncoated expenditure.

#### **(v) Bridge between present and future**

Plans bridge gap between present and future. There is a vast gap between what we are today and what we want to be in future. A proper and systematic plan forms the bridge between these two. Without plans, it is very difficult to accomplish goals. Hence planning is very important for success of any organization.

### 3.3 PURPOSE OF PLANNING

As discussed earlier, planning is the beginning of all other functions of the management. The purposes of the planning are listed below.

- (i) To select from many available alternatives so as to achieve the objectives of the enterprise, economically, effectively and efficiently.
- (ii) To direct all other functions of management.
- (iii) To set up the goals of an enterprise in perspective, within the environment.
- (iv) To help planned goals of an enterprise to break-up into more easily handleable additive-segmented goals.
- (v) To form the basis for budget.
- (vi) To forecast the future to avoid uncertainty and change.
- (vii) To provide effective control.
- (viii) To search for alternatives and adopt the best way of accomplishing the work and
- (ix) To focus the vision on the objectives and goals.

### 3.4 OBJECTIVES

Objectives are the goals or targets which one wishes to achieve. These are the goals towards which all the business activities are directed. Only after specifying the objectives or goals, the managers can decide the type of organization, kind and nature of personnel with right skills, type of technology, supervision and control etc.

As indicated by Peter Drucker in his textbook "The practice of management", there are eight important areas in which objectives of performance are to be set. They are market-standing, innovation, productivity, physical and financial resources, profitability, manager performance and development, worker performance and attitude and public responsibility.

These objectives may be either tangible or intangible. They have a priority and are generally arranged in hierarchy. The following are some of the requirements of a good objective:

- (i) Objectives must be clear and must be acceptable.
- (ii) The objectives must support one another.
- (iii) The objectives must be precise.
- (iv) The objectives must be measurable.
- (v) The objectives must be realistic and valid ones.

Although the basic process of planning is the same for every manager. Planning can be of different types depending on nature and type of organization and the level of the management.

A plan may be very elaborate or comprehensive. Some plans are very detailed in nature that cover even the last details. Others may be very simple and only the targets are shown. Planning may begin at the top with top management deciding the targets and is communicated down below for the implementation. Some plans may begin at bottom and are communicated up, to top management for approval. Some other plans may be done jointly with the participation of members from top management and lower level. Thus there are many types of plans. One useful and accepted way of classification of plans is to distinguish between strategic and tactical plans.

### 3.5 TYPES OF PLANS

(1) Based on nature of planning, the planning is classified as strategic planning (long range planning) and tactical planning (short range planning). The strategic plans are done at top level of management and are generally long term plans, whereas tactical plans are done at lower levels and are of short term in nature.

The differences between strategic and tactical planning are given below.

Strategic planning	Tactical planning
<ul style="list-style-type: none"> <li>1. It is long term.</li> <li>2. Done at top management. <i>Time frame: 2 or more years</i></li> <li>3. It consists of major goals and policies of an organization and resources and facilities to accomplish the goals.</li> <li>4. It is less detailed, focuses only on long term goals.</li> <li>5. It is based on long term goals and is more uncertain. <i>Focus on planning, forecast</i></li> </ul>	<ul style="list-style-type: none"> <li>1. It is short term.</li> <li>2. Done at lower levels of management.</li> <li>3. It consists of use of facilities and resources. <i>Time frame: 2-3 years</i></li> <li>4. It is more detailed since it caters to day-to-day operations and activities of the organization.</li> <li>5. It is based on performance and is less uncertain. <i>Focus on co-ordination</i></li> </ul>

For example, Tata's idea of marketing a car at a price of Rs. 1 lakh is a strategic plan. How to make that, what resources are required, how and where to manufacture, how to assemble, etc., are tactical plans.

(ii) Based on their use, plans are classified as single use plans and standing plans. Single use plans are developed to achieve a specific end. After reaching that target, that plan becomes useless. On the other hand, standing plans are

designed for situations that often repeat. These plans can be used again and again.

### ★ 3.5.1 Standing plans:

These are the policies, procedures, rules and methods of any organization.

#### (i) Policies:

As defined by Terry, "Policy is a verbal, written or implied overall guide, setting up boundaries that supply the general limits and direction in which managerial action will take place". Thus a policy is a general guideline for decision-making. They deal with "how to do" the work. They only provide a framework within which decisions must be made by the management in different areas of organization. There are several policies in different functions of any organization like personal policy, promotion policy, marketing policy, purchase policy, pricing policy, training policy, recruitment policy, distribution policy, payment policy, wages and incentives policy etc.

The policies are classified on the basis of sources like original policies, appealed policies, implied policies and externally imposed policies, or are classified on the basis of functions like personnel policy, promotion policy, pricing policy, distribution policy, investment policy etc., or may be on the basis of level of organization like: top level policy, departmental policy, shop level policy etc.

#### (ii) Procedures:

Procedures are the detailed guidelines that are used to carry out the policies. A procedure provides a detailed set of instructions for performing a sequence of actions involved in doing a certain piece of work. Procedures are to be followed every time when that activity is performed. Procedures may also exist for conducting meetings of board of directors, shareholders, issuing raw materials from stores, packaging of finished goods, inspection etc.

The difference between policy and procedures are given below:

Policy	Procedure
<ol style="list-style-type: none"><li>1. General guidelines of the organization.</li><li>2. Top level activity.</li><li>3. Policies fulfill the objectives of an organization.</li><li>4. Policies are often made without any study or analysis.</li></ol>	<ol style="list-style-type: none"><li>1. General guidelines at the action level.</li><li>2. Departmental activity.</li><li>3. Procedures guide the way to implement the policies.</li><li>4. Procedures are always made after thorough study and analysis of work.</li></ol>

### Planning

#### (iii) Rules:

Rules are detailed and recorded instructions that a specific action must or must not be done under the given instructions. Reporting time to office, lunch time, availing of leaves, use of LTC facility etc., are some of the examples that follow rules. A rule is different from a policy or procedure. Since it does not give a guide to thinking, it is not a policy. Since it is not a sequential procedure hence it is not a procedure.

#### (iv) Methods:

A method is a prescribed way in which one step of a procedure is to be carried out. Thus a method is a part of procedure. A procedure has a number of steps, each step may have number of methods to do it. Methods help in increasing the effectiveness of a procedure.

### 3.6 DECISION MAKING

Planning is an intellectual process, which requires a manager to think before acting. Through planning, managers of any organization decide what to do, when to do, how to do and who has to do. Hence decision-making is an integral part of planning. It is defined as "the process of choosing among alternatives". Decision-making occurs at many stages of planning process. Decision-making and choosing the best alternative is probably the most important activity of the planning process.

Decision-making is part of all the functions of the management. In planning, through decision-making, objectives and goals are prepared. In organizing, the managers decide upon the choice of structure, type of organization, work allocation, delegation of authority and responsibility etc. In directing, managers decide the course of action, the instructions to be given, providing directions etc. In controlling the managers decide on fixing the standards, how to control, what to control etc.

#### X Types of decisions

Decisions are classified as follows:

- (i) Pragmatic and non-pragmatic decisions
- (ii) Individual and collective decisions
- (iii) Minor and major decisions
- (iv) Strategic and routine decisions
- (v) Simple and complex decisions
- (vi) Temporary (Adhoc) and permanent decisions etc.

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(i) **Pragmatic decisions** are those decisions taken within the purview of the policies, rules or procedures. These are also called programmed or routine decisions or structured decisions. These types of decisions are taken frequently and are repetitive in nature. Sanctioning an hour's permission, placing purchase order etc., are some examples of pragmatic decisions.

**Non-pragmatic decisions** are otherwise called as strategic decisions or non-programmed decisions or policy decisions. These decisions involve heavy expenditure and are generally taken by top management.

(ii) **Individual and collective decisions:** Decisions may be taken by an individual or a group of individuals. If the decisions are taken by a single person, they are called individual decisions and if taken by a committee or group of people, than they are called collective decisions. Individual decisions are taken where the problem is of routine nature, and definite rules and procedures exist. Inter departmental decisions and important strategic decisions are generally taken by a group. Group decision-making has advantages like increased acceptance, better communication and better co-ordination. It has some disadvantages also like, delay in arriving at decision, groups may be indecisive, groups may compromise or dominate. To utilize the advantages of group decisions and avoid its disadvantages, two new techniques are proposed known as 'Nominal group techniques' and Delphi Techniques.

In nominal group technique, the members independently generate their idea and give in writing. The ideas are summarised and discussed for clarity and evaluation. Finally each member silently gives his rating and opinion about each idea through voting system. The one with maximum vote is selected as the group's decision.

In Delphi technique, persons who are physically dispersed and anonymous to one another are asked to send their opinion on a topic through mail. A carefully designed questionnaire is circulated for this purpose. The responses are summarized into a feed back report and sent back to them with a second questionnaire. A final summary is developed on the basis of replies received second time.

(iii) **Minor and major decisions:** Minor decisions are those decisions related to day-to-day and periodical occurrences. Purchase of stationary, granting leave and permissions etc., are some examples of minor decisions. Major decisions are those decisions generally taken by top management. Some of them are purchasing new machinery, employing new technology, hiring new people etc., are some of the major decisions.

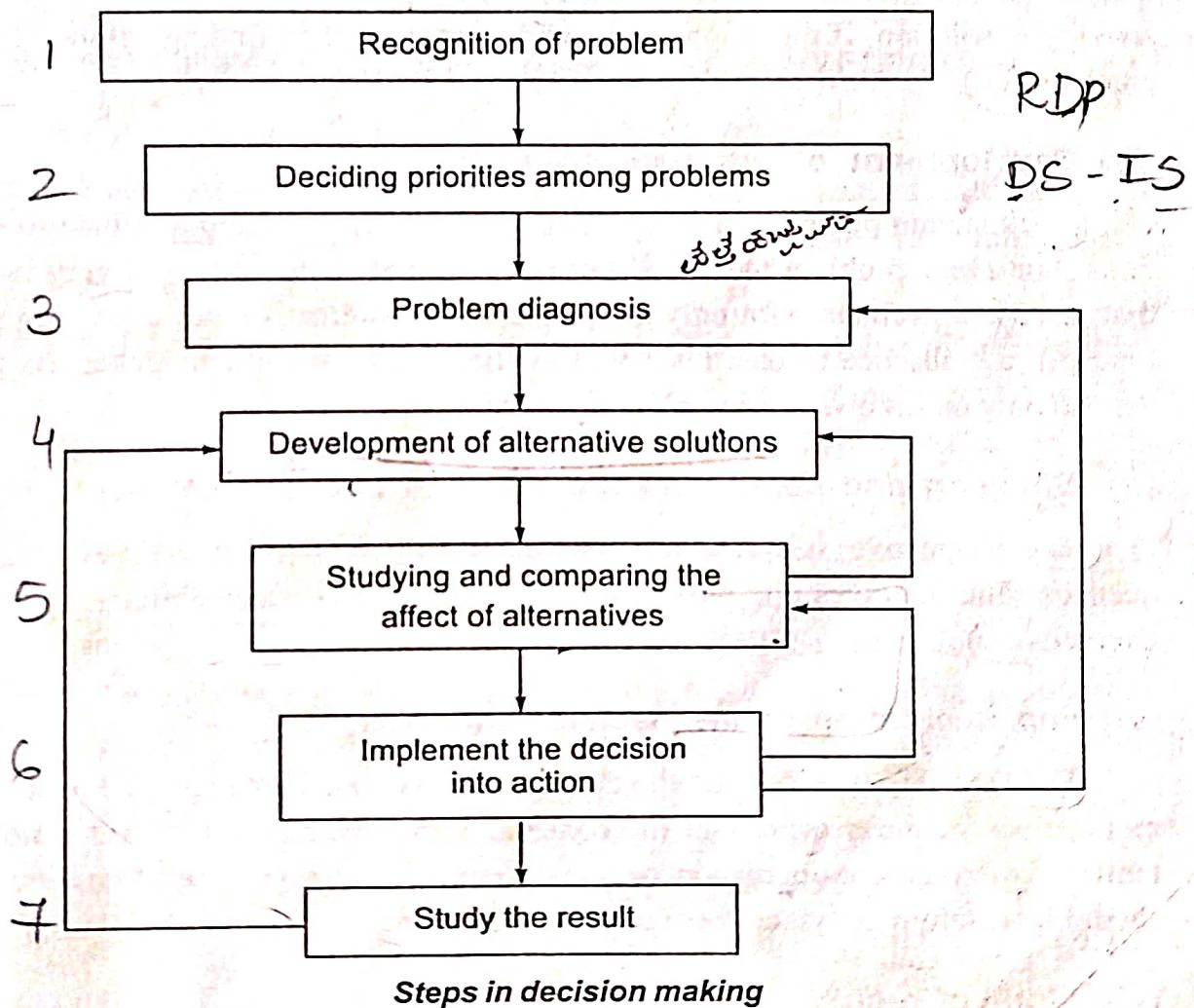
(iv) **Strategic and routine decisions:** Strategic decisions are similar to major decisions and are generally taken by top management. Some examples are

price increase/discount, change in product range etc. Routine decisions are decisions related to day-to-day operations of an organization that are routine in nature.

- (v) **Simple and complex decisions:** A simple decision is one that is related to a problem with few number of variables. When there are many variables, the decisions making will be complex.
- (vi) **Temporary and permanent decisions:** Some decisions are to be taken depending on situation till the solution is found. A decision is taken to meet an unexpected solutions are temporary in nature. These are generally taken by shop managers. Permanent decisions are taken on a permanent basis.

### Steps in Decision Making:

Steps in a decision-making are shown in following block diagram.



#### (i) Recognition of problem:

The first step in decision-making is the problem recognition. A problem

may exist either due to a deviation from the past experience, a deviation from the plan, people bringing problems to the manager or problems arising from competition.

#### **(ii) Deciding priorities among problem:**

The manager should identify the problems which he can solve, the problems which he feels that his subordinates can solve and the problems which are to be referred to the higher officers. With this decision, the manager is left with very few problems to solve.

#### **(iii) Problem diagnosis:**

Correct diagnosis of the problem is very important for any manager. Managers should follow systems approach in diagnosing a problem. He should make a thorough study of all the sides of a problem coupled with organization before arriving at solution. If the diagnosis is made correctly, then finding solution becomes easy.

#### **(iv) Development of alternate solutions:**

After having diagnosed the problem, the next step is to find alternate solutions. For every problem there will be some alternate solutions. It is very rare that there is a problem with only unique solution. Alternatives do exist. Sometimes, in the absence of past history of alternate solutions, the manager has to depend only on his own ability in finding alternatives.

#### **(v) Studying and comparing the affect of alternatives:**

The alternative solutions are measured and compared for their consequences. This involves a comparison of the quality and acceptability of these alternatives.

#### **(vi) Implementation of the decision into action:**

The next step is to convert the decision into action. This requires the communications of the decisions to the concerned employees in clear and simple terms. If there is any opposition or non-acceptance from the employees, steps should be taken to convince them to accept the same.

#### **(vii) Study of result:**

After having implementing the decision, the manager has to carry out the follow up action. If the result is not satisfactory, the manager has to take necessary corrective action or modify his decision.

During the process of decision-making, the managers face many difficulties. Some of them are:

1. Incomplete information
2. Non-conducive environment
3. Opposition by subordinates
4. Improper communication
5. Wrong timing
6. Statutory regulations
7. Government policies
8. External influence
9. Lack of support.

### 3.1 STEPS IN PLANNING AND PLANNING PREMISES

The main steps involved in planning are as follows:

1. **Being aware of opportunities:** This is very first step and starting point for planning. Once we are aware of opportunities, we can think of setting realistic objectives.
2. **Establishing objectives:** It is very important to establish objectives for the entire enterprise and the objectives for each subordinate work units. That is, the major objectives are broken down into departmental and individual objectives. It is a very crucial step in planning.
3. **Developing planning premises:** The third step in planning is to establish planning premises. It is the process of creating assumptions about the future on the basis of which the plan will be ultimately formulated. Planning premises are important for the success of planning as they reveal facts and information relating to the future such as economic conditions, production costs, competition, availability of material, resources and capital, government policies, population trends etc. This tells about which plan is to be carried out. There three types of planning premises:

- (i) **Internal and external premises:** Internal premises are premises within the organization. Some of the examples are: policies, forecasts, investment, availability of equipment, capability of work force, funds flow etc. External premises are premises outside the organization. They include: Government policies, technological

Internal	External
within org	outside org
• ex: policies, forecasts, investment, availability of equipment, capability of work force, funds flow etc.	• govt. pol., TC, EC, BB
• projects, power net	

changes, business environment, economic conditions, population, buying power, political stability, sociological factors, demand etc.

(ii) Tangible and intangible premises: Tangible premises are the measurable premises. For example, population, investment, demand etc., are tangible premises. Intangible premises are those which cannot be quantitatively measurable. Examples of this are: business environment, economic conditions, technological change etc.

(iii) Controllable and uncontrollable premises: Some of the premises are controllable like, technical man power, input technology, machinery, financial investment etc. Some other premises like, strikes, non-availability of raw material, change in government policies, socio-economic changes, phase-shift in technology, wars etc., are uncontrollable by the organization.

~~DEFINITION~~

4. Determination of alternative course: Next step is to search and identify some alternative courses of action. It is very rare that for a plan there will be no alternatives. In this step alternatives are listed.

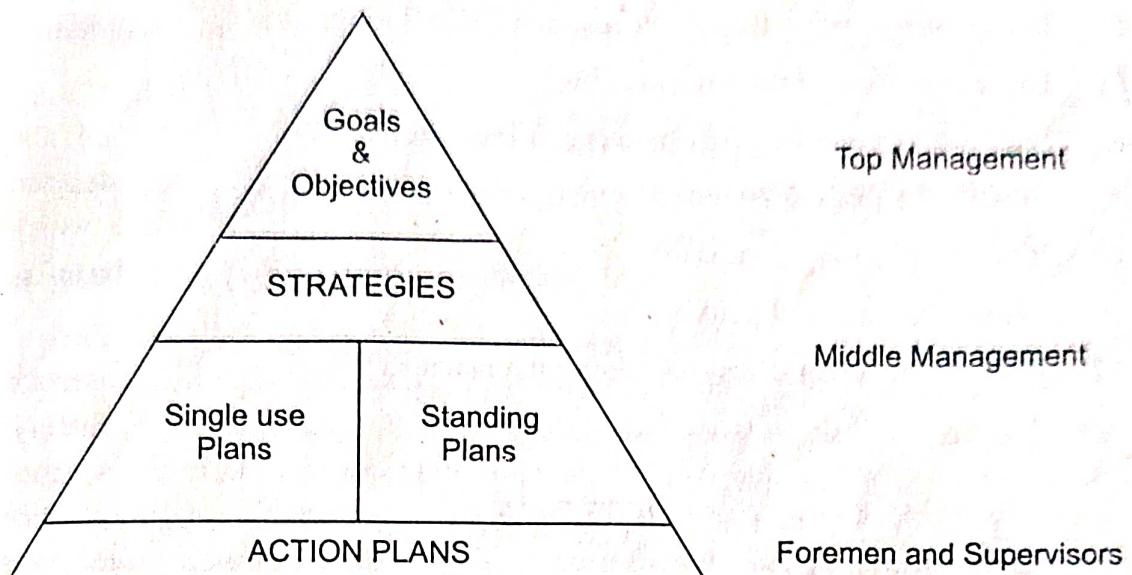
5. Evaluating the alternatives and selecting the best course of action: Once the alternatives are found, then the next step is to evaluate them with respect to the premises and goals. A desired and best suitable alternative is selected by comparative analysis with reference to cost, risk, and gain etc., keeping in mind the goals and objectives.

6. Formulating derivative plan: In order to complete the task, the selected plan must be translated into programs, working plans and financial requirements in the sub-units. These sub-derived plans from main plan are termed as derivative plans.

7. Monitoring and controlling the plan: This is the last step in planning. Each activity of plan is monitored on a continuous basis and if any deviation or shortfall is noticed, then the manager will initiate suitable corrective action.

### 3.8 HIERARCHY OF PLANS

The plans are generally arranged in a hierarchy within any organization. It starts at the top with objectives and goals of an organization. The second level is strategies. As discussed earlier, there are two types of strategies namely single use plans and standing plans. The third level is action plans. The hierarchy of plans is shown below:



### Hierarchy of plans

The top management sets the goals and objectives. These occupy the top priority. The goals or objectives include long-term plans and strategies of an organization. For example, a company aims to improve their production by 20% during next 2 years. Such objectives are very broad ideas and are achieved by strategies. Strategies are carried out by means of two types of plans known as single-use-plans and standing plans. Single use plans are developed to achieve a specific goal after reaching the goal, the plan is dissolved. Examples of single use plans are budgets, construction of a bridge, dam or a shopping complex etc. Whereas standing plans are developed for projects that happen again and again. Admission procedure in a college, overhauling procedure of an aircraft, recruitment procedure of an organization etc., are some of the examples of standing plans. Action plans are the plans executed by the lower level organization. These are routine plans executed by the foreman and supervisors of the shop.

### REVIEW QUESTIONS

1. What is planning? Explain the steps involved in planning.
2. State and explain importance and purpose of planning process.
3. What are the objectives of planning? Explain. *Based on nature*
4. Briefly explain the types of planning. *Strategic, tactical  
Based on use of plans*
5. What is nature and purpose of planning? *Single use & Standing  
Policies  
bridge, dam.  
Procedures  
Shopping complex  
Rules  
Methods*

## CHAPTER 4

# ORGANIZING

### 4.1 NATURE OF ORGANIZATION

Organizing is the grouping of activities necessary to attain objectives, the assignment of each grouping to a manager with authority necessary to supervise it, its provision for coordination horizontally and vertically in the enterprise structure. An organization should be designed to clarify who is to do what and who is responsible for what results, to remove obstacles to the performance caused by confusion and uncertainty of assignment and to furnish decision making and communication network reflecting and supporting enterprise objectives.

(Organization can be used to denote an enterprise, company or a firm. But for most practising managers, organization can be defined as :

“Organization provides the structure, the frame on which the management of the enterprise is based.”

It can also be defined as “a vehicle moving the management efforts through the management team, with the help of the enterprise resources, to the accomplishment of the goals or plans.”

The term organization is used in two different senses. In the first sense it is used to denote the process of organizing and the second is used to denote the result of that process called organization structure. The process of organization is defining and grouping the activities of the enterprise and establishing the authority relationship among them. In the second step is to prepare an organization structure. There are two types of organizations – formal and informal.

#### 4.1.1 Formal Organization

There is nothing inherently inflexible or unduly confining about it. If the manager is to organize well, the structure must furnish an environment, in which individual performance, both present and future contribute most effectively to group goals. Formal organization must be flexible and there should be room for discretion, for taking advantage of creative talents.

#### 4.1.2 Informal Organization

Informal organization is any joint personal activity without conscious joint purpose, even though possibly contributing to joint results. Managers must be

aware of the informal Organization & avoid antagonizing it, they will find it advantageous to use it as they manage subordinates.

## 4.2 PURPOSE OF AN ORGANIZATION

The basic purpose of having organization is to formulate a frame or structure of an enterprise with a view to fulfil the enterprise tasks. The purpose includes the following logical components:

- (i) Establishes the pattern of relationship by giving duties and responsibilities to an individual or group.
- (ii) Demarcates the authority, responsibility and duties of each individual or group.
- (iii) It tells each manager where his accountability lies and, who (below him) are in his sphere of command.
- (iv) Provides adequate communication.
- (v) Coordinates or integrates (through organization charts) and controls the activities of individuals or groups to achieve common objectives or objectives of the enterprise.

## 4.3 PRINCIPLES OF ORGANIZATION

The success of a business organization can be ensured if the following basic principles are used. In order to develop a sound and efficient organization structure, there is need to follow certain principles. In the words of E.F.L. Brech, "If there is to be a systematic approach to the formulation of organization structure, there ought to be a body of accepted principles". They are as follows:

- (1) **Objectives** : The objectives of the enterprise influence the organization structure and hence the objectives of the enterprise should first be clearly defined. Then every part of the organization should be geared to the achievement of these objectives.
- (2) **Specialisation** : Effective organization must promote specialisation. The activities of the enterprise should be divided according to functions and assigned to persons according to their specialisation.
- (3) **Span of Control**: As there is a limit to the number of persons that can be supervised effectively by one boss, the span of control should be minimum as far as possible, the minimum, that means an executive should be asked to supervise a reasonable number of subordinates only, say six.
- (4) **Exception**: As the executives at the higher level have limited time, only exceptionally complex problems should be referred to them and routine

matters should be dealt with by the lower levels. This will enable the executives at higher level to devote time to more important and crucial issues.

- (5) **Scalar principle :** This principle is sometimes known as the "chain of command". The line of authority from the chief executive at the top to the front - line supervisor at the bottom, must be clearly defined.
- (6) **Unity of Command:** Each subordinate should have only one supervisor whose command he has to obey. Dual subordination must be avoided, for it causes uneasiness, disorder, indiscipline and undermining of authority.
- (7) **Delegation:** Proper authority should be delegated at the lower level of organization also to carryout the work effectively.
- (8) **Responsibility:** The superior should be responsible for the acts of his subordinates.
- (9) **Authority:** Authority is a tool by which a manager accomplishes the desired objectives, which should be clearly defined.
- (10) **Efficiency:** The organization structure should help enterprise to function efficiently to accomplish the objectives at lowest cost.
- (11) **Simplicity:** The organization structure should be simple and the levels should be as minimum as possible.
- (12) **Flexibility:** Should be flexible, adaptable to changing circumstances, permit expansion, replacement, without dislocation and disruption of the basic design.
- (13) **Balance:** There should be a reasonable balance in the size of various departments, between centralization and decentralization, between the principle of span of control and short chain of command and among all types of factors such as human, technical and financial.
- (14) **Unity of direction :** Should be one objective and one plan for a group of activities having same objectives. Unity of direction facilities unification and coordination of activities at various levels.
- (15) **Personal Ability:** As people constitute an organization, there is need for proper selection, placement and training of staff. Organisation structure must ensure optimum use of human resources and encourage management development programme.

#### 4.4 TYPES OF ORGANISATION

Since organization structure (or organization chart) is not a routine or academic sketch, there can be no standard format which can fit any industrial en-

USE PAPER

terprise. The organization chart has to evolve out of the present possible facilities available to the enterprise. Thus, we may identify five patterns of arrangement which commonly (with adjustments) describe the situation in most enterprises. They are:

- (1) Line organization.
- (2) Functional or staff organization.
- (3) Line and staff organization.
- (4) Committee organization.
- (5) Matrix organization.

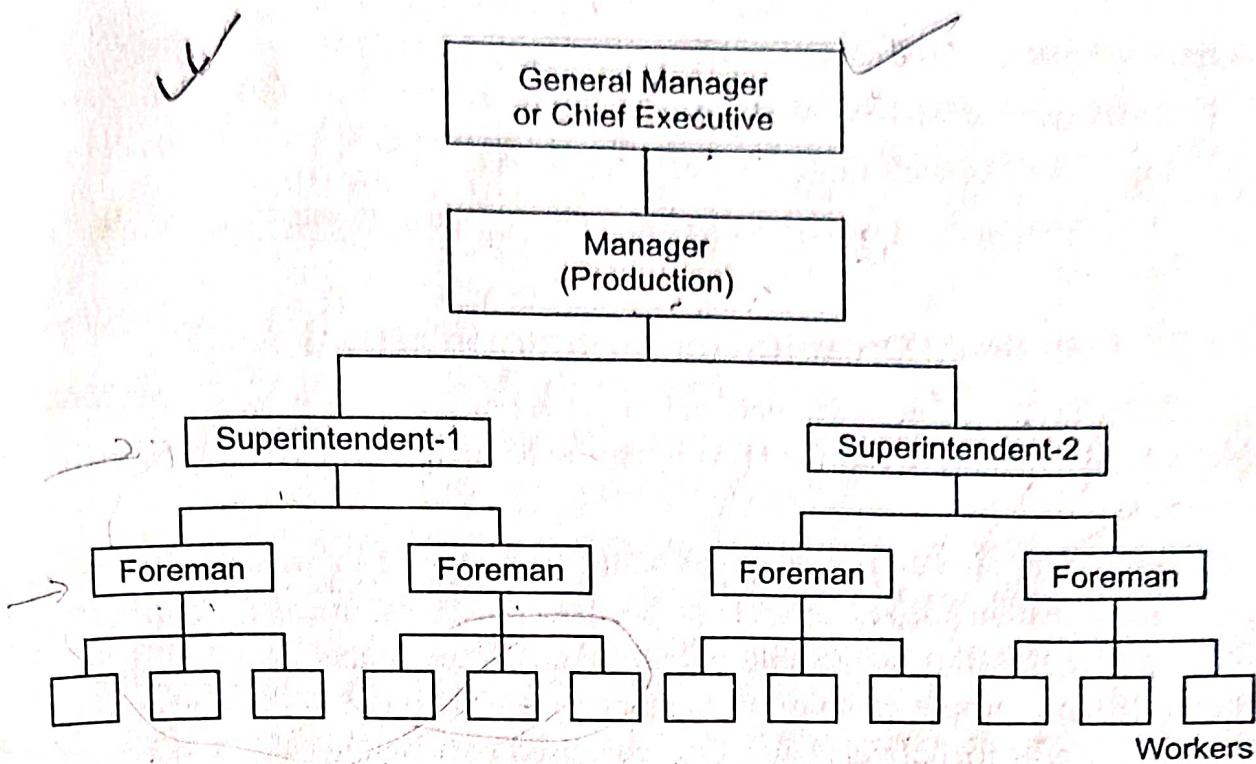
#### 4.4.1 Line Organisation

It is also called as military or scalar organization. It is the simplest form of organization structure. Under this system, authority flows from man at the top to the lowest man vertically. In other words, directions issued by the man in-charge of the whole organization are directly conveyed to the person responsible for the execution of work. This makes the line of authority 'straight and vertical'. It is this authority which channels and directs the response of others and require them to conform to decisions, plans, policies and procedure and goals.

Line authority is thus that relationship in which a superior exercises direct supervision over a subordinate. There are three important principles in this system. They are

- (i) Command should be given to subordinate through the immediate superior. There should be no skipping of levels in the chain of command.
- (ii) There should be only one chain i.e., command should be received from only one immediate superior.
- (iii) The number of subordinates whose work is directly commanded by the superior should be limited.

Any enterprise that starts small organization, probably starts with a line type organization.



Line organization chart for a medium size manufacturing company

### **Advantages**

- Simple and easy to understand.
- Flexible, easy to expand and contract.
- Makes clear division of authority.
- Clear channel of communication with no confusion.
- Encourages speedy action.
- Strong in discipline as it fixes responsibility on an individual.
- Capable of developing the all-round executive at the higher levels of authority.

### **Disadvantages**

- Neglects specialists.
- Overloads a few key executives.
- Requires high type of supervisory personnel to meet the challenges imposed in the absence of specialists as advisors.
- Limited to very small concerns.
- Encourages dictatorial way of working.
- Provisions are seldom made to train, develop and replace top executives.
- Due to task of specialisation, perhaps there is more wastage of material and man hours.
- Rigid and inflexible.

### **Applications**

Line organization is suitable for

- (a) Small concerns free from all complexities.
- (b) Automatic continuous process industry such as paper, sugar, textile etc.

F. W. Taylor

### **4.4.2 Functional Organization (Staff organization)**

F.W. Taylor suggested functional organization because it was difficult to find all round persons qualified to work at middle management levels in the line organization.

Functional authority is the right which is delegated to an individual or a department that authorizes control of specified processes, practices, policies or other matters relating to activities undertaken by personnel in other departments. If the principle of unity of command were followed without exception, authority over these activities would be exercised only by their line supervisors. But numerous reasons including lack of special knowledge, lack of ability to supervise processes and danger of diverse interpretation of policies explain why they occasionally are not allowed to exercise this authority. It is delegated by their common superior to a staff specialist or a manager in another department.

As the name implies the whole task of manufacturing and direction of subordinates should be divided according to the type of work involved. For example almost all business organizations have separate departments to look after production, sales and the general office. The functional manufacturing carries this idea to its logical limit of dividing up management into a number of functions such as production, R & D, personnel, purchasing, finance, office management and sales. Each one of these departments would serve the rest of the organization. The personnel department for example, would recruit train and deal with the people required for all other departments, the purchasing department would handle purchasing for the entire organization. While dividing management into such departments care should be exercised to see (1) that the entire work has been divided into various departments, so that there is no one activity which has not been allotted to one department or the other. (2) there should be no duplication in the sense that an activity should not be allotted to more than one department. (3) the work allotted to one department should consist of interrelated jobs.

At the higher levels of organization, functional departments are divisions and all related and similar work is placed in one department or division under one executive.

**Need :** The functional organization was developed so as to achieve complete organization on the basis of various functions performed by the enterprise. Also in order to get a thorough knowledge of exact procedure or greater effectiveness in a particular area or field, it was necessary that the organization structure should be based on the functions performed by the individuals.

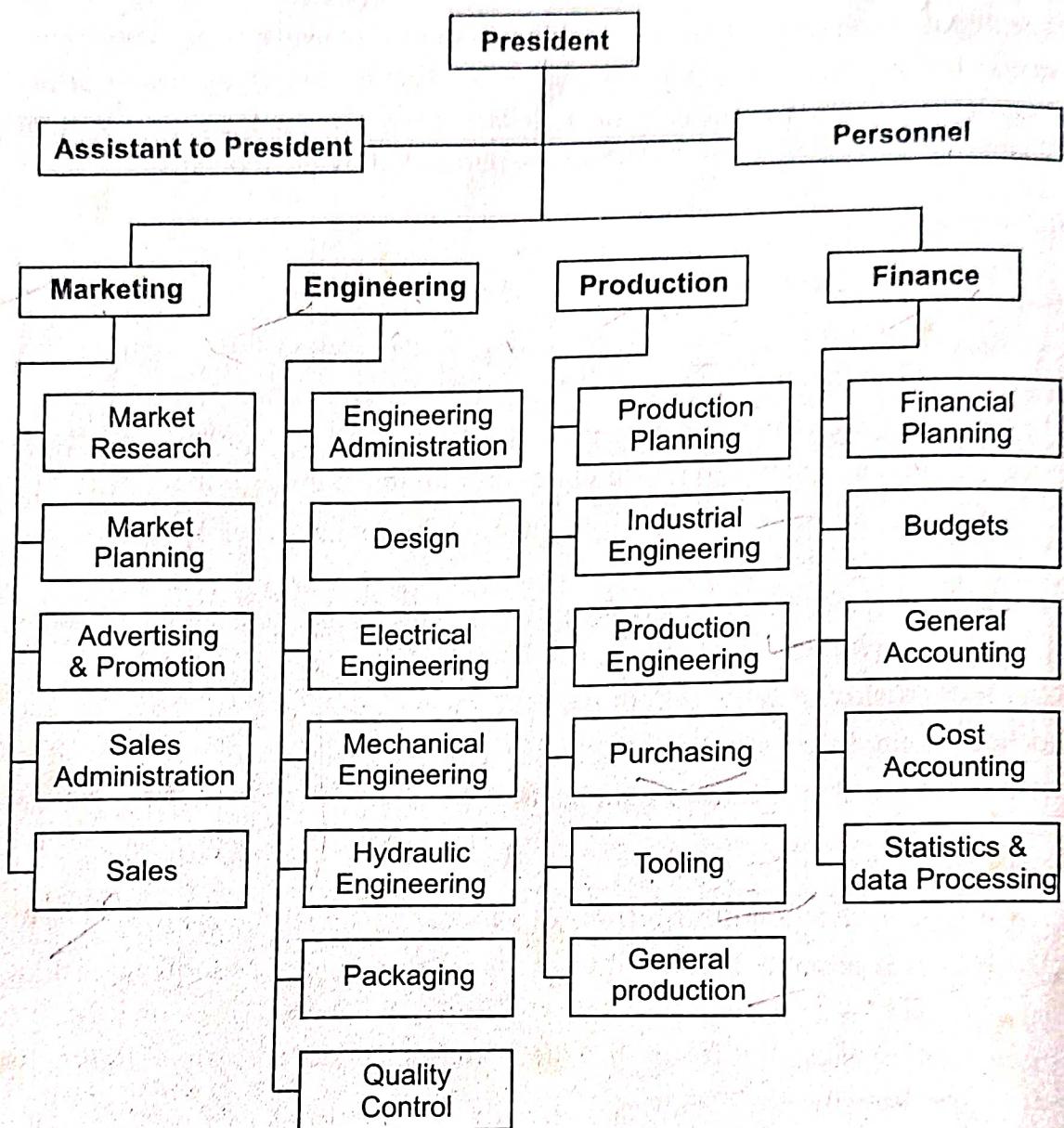
### **Advantages**

- It is a logical reflection of functions.
- It ensures a greater division of labour and enables the concern to take advantages of specialisation of functions.
- It makes for a higher degree of efficiency as the workers and others in the organization have to perform limited number of operations.
- It facilitates mass production, through specialisation and standardisation.
- It relieves pressure of need to search a large number of all round executives.
- Quality of work is improved.
- Simplifies training.
- Furnishes means of tight control at top.

### **Disadvantages**

- Coordination of the efforts of various functional foremen is difficult.
- It is unstable because it weakens the disciplinary controls by making the workers work under several different bosses.
- It makes it difficult for the management to fix responsibility for unsatisfactory results.
- Workers always remain confused about the authority, activity of each supervisor, hence it makes industrial relationship more complex.
- Responsibility for profit is at the top only.
- Makes economic growth of company difficult.
- Limits development of general managers.

Functional organization is the most widely employed basis for organizing activities and is present in almost every enterprise at some levels in the organization structure. On the whole, this system has been quite successfully followed in big concerns for division of work at the top but for division of work in various departments themselves the system has not been found to be very successful because there is no clear line of authority.



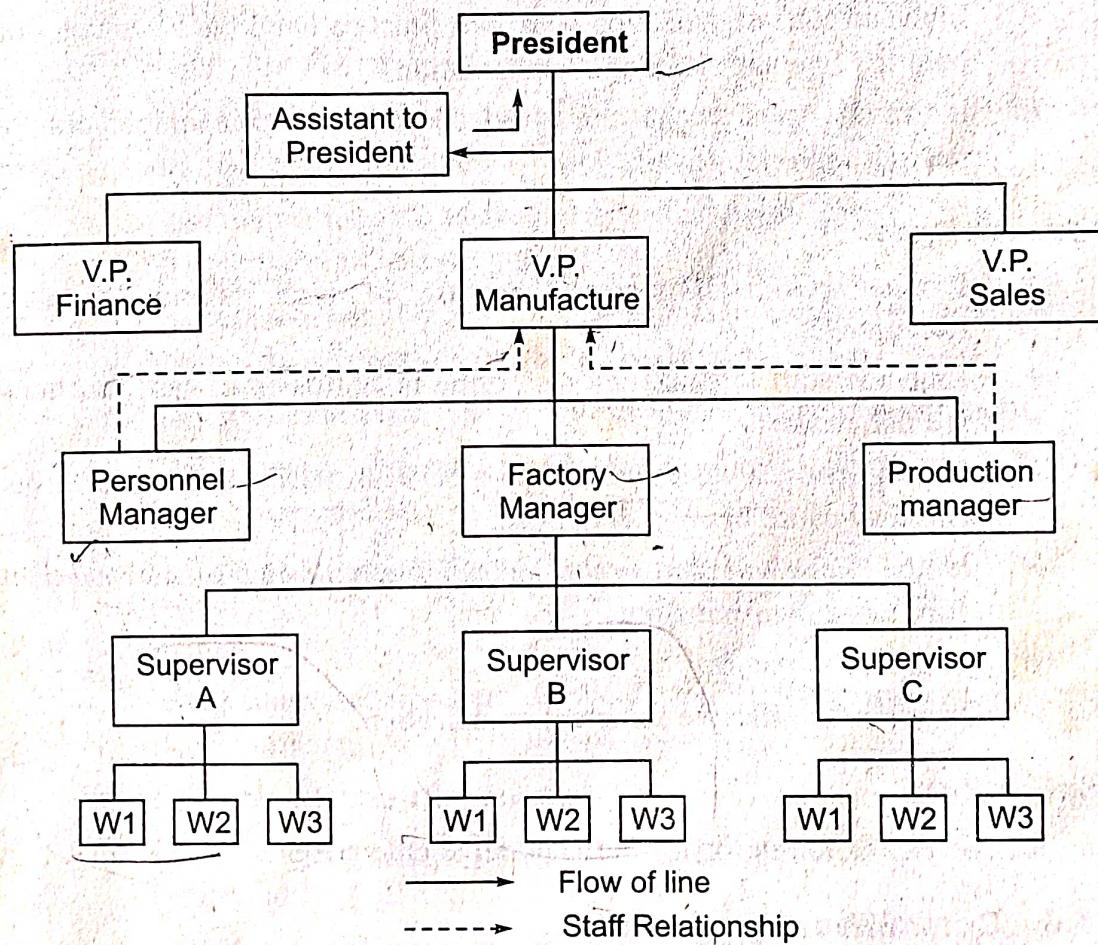
### Functional Authority of line Departments

A variation of line staff organization is line functional organization in which the staff or specialist executives has full authority (i.e., a higher degree of authority than in a line and staff organization) over his particular function which may be inspection work, study, purchasing; employment etc.

### 4.4.3 Line and staff Organization

The line organization gradually developed to shape as the line and staff organization. Taylor's functional organization heartened its development. As the industry grew in size and complexity, the line executives could not perform

properly all other functions (besides looking after production, sales) such as R & D, planning, distribution, legal, public relations, purchasing, accounting, quality control etc. This necessitated the employing of special executives to assist line executives and they were known as 'staff' as they were recruited to perform staff or specialist functions. One widely held concept of line and staff is that line functions are those that have direct responsibility for accomplishing the objectives of the enterprise while staff functions to help the line to work most effectively in accomplishing the primary objectives of the enterprise. Line authority gives a supervisor a line of authority and control over a sub ordinate while nature of the staff relation ship is advisory. The function of people in a pure staff capacity is to investigate, research and give advice to line managers to whom they report. The final decision whether to accept/implement the recommendation of the staff executives remains in the hands of the line executive.



It is thus often stated that staff officers are assigned an 'authority of ideas' and line officer an "authority of command" i.e., the line executives

function is to act, the staff executives' function is to think. Supervisors and subordinates must know whether they are acting in a staff or line capacity. A staff officer's job is to advise and not to command, then line supervisor must take decision to issue instructions through the scalar plan. Frequently, line and staff are regarded as different types of departments. Although a department may stand in a predominately line or staff position with respect to other departments, we distinguish line and staff by authority relationship.

### **Advantages**

- Expert advise from specialist staff executive can be made use of
- Line executives are relieved of some of their loads and are thus able to devote more attention towards production.
- Less wastage of material, man and m/c hours.
- Quality of product is improved.
- There is no confusion as exists in functional organization.
- Line and staff organization possesses practically all the advantages of both the line and functional organization.
- It provide greater chances of advancement to able employees by making more jobs available.

### **Disadvantages**

- Product cost will increase because of high salaries of staff executives.
- Line and staff organization may bring in confusion in case functions are not clear.
- Friction and jealousies will develop between staff and line executives and may cause harm to enterprise.
- If line executives start depending too much on staff executives, they may loose their initiative.
- Complex in nature.
- May not be effective for small organization.

### **Applications**

It is very common in the medium and large enterprise.

#### **4.4.4 Committee organization**

In the modern complex business world, some of the administrative tasks cannot be performed by a single person alone. Such situations may call for two or more persons to perform such tasks. This calls for a committee organization. A committee is a group of people pooled to carry out a defined objective.

The various functions of a committee are:

- (i) Collect the necessary information from different sources and arrange them in order.
- (ii) The collected information is critically examined and analysed.
- (iii) Draft a detail report containing the recommendations for the purpose of implementation.
- (iv) Framing the policies of the organization.
- (v) Selection of personnel, directing and controlling the officers at regular intervals to achieve the goals.

#### ***Advantages of committee organizations***

- (i) Committees can take valuable decisions. Hasty decision can be avoided.
- (ii) The committee members can use their expertise while taking decisions.
- (iii) Committee decisions are many times better.
- (iv) As a member of a committee, a manager has to accept the decision and implement it faster.
- (v) Communication of decision is faster with the involvement of members from different groups.
- (vi) Coordination among departments is made easy, since managers of various departments are involved in decision-making.
- (vii) Committee members have authority to implement the decisions.
- (viii) Decisions are generally widely accepted since they are taken in a democratic process.
- (ix) Decision is based on vast experience of the members.

#### ***Disadvantages***

- (i) Many times decisions are delayed due to the heterogeneous group in the committee.
- (ii) Increased administrative expenses.
- (iii) In the absence of concurrence of ideas, sometimes decisions cannot be arrived.
- (iv) Secrecy of decision cannot be maintained.
- (v) Sometimes decisions are taken on compromise.
- (vi) Sometimes expressing ideas may lead to heated arguments.
- (vii) Dominating nature people influence more in decision-making.

- (viii) Since committee takes decisions, intuition of individuals will deteriorate.
- (ix) Responsibility cannot be fixed on any individual if a decision does not produce expected favourable results.

#### **4.4.5 Matrix organization**

There are several departments under matrix organization. Each department is assigned with a specific task. The available resources can be effectively used by each department with the coordination of other departments.

It is defined as "Any organization that employs a multiple command structure but also related support mechanisms and an associated organizational culture and behaviour pattern".

This type of organization is best suited where large number of small projects are to be managed.

For the matrix organization to function effectively, the following conditions should prevail.

- (i) Scalar chain of command is not followed. A project manager will give reports to several superiors.
- (ii) The physical, financial and human resources are to be shared by people of different projects in a cooperative way.
- (iii) Sharing the resources may lead to conflicts if not understood each other properly.

#### **Advantages of matrix organization**

- (i) The matrix organization combines the advantages of functional and line organizations.
- (ii) It ensures the achievement of objectives with technical specialization.
- (iii) It ensures effective utilization of available resources.
- (iv) It adopts itself easily to external changes.
- (v) It is highly flexible.
- (vi) Motivation can be effectively applied.
- (vii) Makes room for training and development of people.

#### **Disadvantages**

- (i) Since matrix organization does not follow scalar chain of command, it leads to confusions.
- (ii) Since too many supervisors controlling an activity, work may be delayed.

- (iii) Sometimes resources may not be made available owing to other priority projects.
- (iv) May lead to conflicts owing to lack of unity of command in the organization.

## ~~Ques 2~~ CHAPTER 5

# Human Resource Management

## STAFFING

Staffing is defined as "filling and keeping filled, positions in the organization structure". It is also known as "human resource management". This includes identifying the requirement of work-force, taking inventory of people available, recruiting, selecting, placing, promoting, appraising, planning the employee's careers, training them to suit the job, developing the staff to carry out the defined job effectively and efficiently.

### ✓ 5.1 NATURE AND IMPORTANCE OF STAFFING

A business cannot be successfully run without the right kind of people. It is very important to fill the jobs with suitable people who will carry out the job effectively. The staffing is very important because of following reasons.

- 1) *Talent* (i) It helps in discovering talented and competent workers and developing them to move the organization ladder.
- 2) *right person* (ii) Staffing is important to put the right person at right job which results in increased production.
- 3) *shortage of workers* (iii) It avoids sudden disruption of the production due to shortage of workers, since it plans and fills the positions.
- 4) *keeps healthy atm* (iv) It maintains harmony and creates healthy atmosphere in any organization by planning the promotions, training needs and additional skills required.
- 5) *plans keeps* (v) It plans the requirement of man power at various time and levels of a project and cater to it.  
*for whom becomes next year.*

### Elements of staffing:

While carrying out the staffing function, the management should ensure that right people are engaged for a job. The jobs cannot be changed to suit the people. The main elements involved in staffing are:

- (i) Proper placement of people.
- (ii) Rational recruitment and selection.
- (iii) Proper positioning and fixation of salaries.
- (iv) Providing necessary training for the people to carry out the job.
- (v) Good promotional policies and retirement scheme.

*types of staffing &  
placement*

### **Functions of staffing:**

Staffing plays a vital role in organization. It has key roles to play for the well being of any organization. The following are some of the functions of staffing.

#### **(i) Man power planning:**

The first function of staffing is to plan the requirement of man power in various levels of organization to achieve the objectives of the organization. Man power planning involves short term and long term. Short term is the immediate requirement of man power to reach the targets where as long term planning involves the requirement of people for future proposed projects.

#### **(ii) Development:**

Development means preparing the people of an organization to develop required skills to perform their tasks. This involves training of people.

#### **(iii) Fixing employment standards:**

The staffing defines and fixes the responsibilities of people. The specification and qualifications of people to be put on a particular job are prepared.

#### **(iv) Sources of selection:**

The staffing identifies and specifies sources of selection like internal or external sources. A position may be filled by people from internal source available with in the organization either by transfer or promotion. External sources may be considered for filling a position from outside organizations.

#### **(v) Selection:**

After having identified the sources of selection, next function is selection process. People are selected as per specifications and qualifications set earlier and recruited. The selected people are placed on the job.

#### **(vi) Training:**

If required, the selected people are given necessary training to carry out the specific job.

#### **(vii) Routine functions:**

In addition to the above functions, the staffing also involves in promotion, transfer, punishment, motivation, welfare, coordination, retirement etc.



## 5.2 SELECTION

Selection of personnel for the organization is one of the most important managerial responsibilities.

According to the requisition, a primary selection is done for the suitable candidates, to be called for the interview. The final selection is done by the executives in the case of higher posts and for lower posts recruitment, the personnel officer is present in all selections and keeps an eye on the recruitment activities with an aim:

- To find out whether the candidate can be suitable employee. For this, the candidate should be clearly told about the nature of the job, terms and conditions.
- To know the suitability for the particular jobs, he can be cross questioned and thus the suitability can be judged.
- If the selection of the worker, admitted to the firm is not working skillfully then the result will be, either there will be a poor level of work or there will be a high rate of labour turnover. Both will be harmful to the firm in the long run. Therefore every effort should be made to make proper selection.

### 5.2.1 Techniques of selection

- Application Banks
- Preliminary or Initial Interview
- Interview
- Group discussion
- Employment tests.

#### (i) Application Bank

It is invariably used as one of the selection tools and can be helpful at the interview stage. It provides actual information needed for evaluating the candidate's suitability. It is also used as a basic record of his personnel data is about educational qualifications, training, experience etc. Many large companies use such application forms which determine, whether the candidate possesses the basic minimum requirement about the Qualifications, Knowledge and Skills or not.

Generally they seek information in the following areas:

- Personnel data such as age, sex, marital status.
- Family background, such as father's and mother's occupation and earnings.

- Educational background including training.
- Employment record including details about previous employment if any and present employment.
- Name and address of few persons usually other than relation to whom references can be made.
- Membership of professional organization.
- Reason for seeking job in the organization.

### (ii) Preliminary or Initial interview

This interview is usually of short duration and is aimed at obtaining certain basic information with a view of identifying the knowledge and other information not present in application.

The candidate is asked about his educational skill, knowledge, job experience, minimum salary acceptable etc. Sometimes he is also asked that why he is applying for job in that particular organization. If the candidate seems to be possessing the basic minimum requirement for efficient performance, he is given an application form to fill in.

### (iii) Interview

It is one of the least reliable and valid selection techniques. It relies upon a considerable extent in accepting or rejecting a candidate. The interview is left with the inevitable personality variables and for this he has nothing to depend upon except his subjective judgement. The interview may follow a structural pattern or an unstructural pattern.

- **In structural pattern or directive pattern:** In structural pattern of Interviewing, a list of questions based on job specification is prepared in advance. The interview may be occasionally separated from the prepared list of questions and put other questions.

The candidate is supposed only to answer the questions and the interviewer can learn a lot about the candidate's ability and knowledge, but this technique imposes serious limitation in drawing out his personality. It is not very effective.

- **Unstructural or non-directive or unpatterned :** It is one of the most effective interviewing technique. The interviewer, instead of asking too many questions initiates the candidate to create a kind of permissive atmosphere in which the candidates talks usually quite revealingly about his experiences, aspirations, fear, weakness etc. This kind of interview requires a high degree of interviewing skill and it can therefore be conducted by only trained interviewers.

In some large organizations, the candidate has to go through a review of

two or three panel interviewers. After each panel interviewer some candidates are eliminated and only those candidates, who succeed in the first interview are sent on to the second interviewing panel and so on.

#### (iv) Group Discussion

In this technique candidates are brought together in group of 6 or 8 persons for informal discussion and the selectors observe them and evaluate them. There are two kinds of group discussions, one where a problem is given to a group to discuss and the individual member is free to choose his own approach. In the second type, each individual is given an initial position and supplied with supporting information to defend his own position.

### (V) Employment tests

Most of the large companies use one or other kind of employment tests. Before a company use employment test it should take following points into account.

- Since the tests are aimed at predicting future success in a job situation, they should be selected or designated on the basis of a sound job analysis programme.
- In deciding upon the test to be used as a selection tool, its specialty should be taken into considerations.
- Tests should be valid. Before a test is selected for use as an employment, its validity should be determined in relation to the specific job.

Tests are only one of the techniques of selection. They are not fool proof and therefore instead of using single test, often a batch of tests is used. A variety of test are used as selection tools.

The object of these scientific methods of selection is to ensure that a person selected possesses those physical and mental qualities in required degrees which are essential if he is to become an efficient and successful worker.

- **Intelligence Test:** It is a measure of an individual's capacity of reasoning and verbal comprehension. It is used in the selection and classification of workers for almost every kind of job from the unskilled to the highly skilled, administrative and professional jobs.
- **Vocations Aptitude Test :** Physical strength and general intelligence are not enough to enable a person to perform a task efficiently. Besides, he must posses the ability for the performance of that job. Infact from the point of view of future achievements, a person of high natural ability is likely to prove more successful than one who

through training and experience has gained more knowledge but possesses less natural ability. If this is correct, then it makes it necessary to find out whether the applicant possesses the necessary vocational aptitude or not.

- **Analytical Test:** In this method, a job is analysed in terms of key qualities or abilities as speed and quality of observations, ability to keep one's head and not get confused when a quick decision is called for. A test or a combination of tests are then taken which measure the degree to which these abilities are present or lacking in the candidate.
- **Synthetic Test:** In case of jobs which are complex and for which the analytical tests can't be performed, synthetic tests may be adopted. It presents the candidate a complex situation more or less similar to the one normally present in actual task and his success or failure in the test is accepted as the possession or absence of the required vocational aptitude.

### **5.3 RECRUITMENT**

It is an important step in the employment of labour. Haphazard recruitment of labour brings in a measure of chances and uncertainty in an industry and may result in inefficiency and loss of production. This means that systematic steps should be taken to ensure that right type of persons are available to the concern in right number.

The numbers of workers required by a concern depends on

- The scale of production.
- The degree of mechanization.

Following are the various sources from where the personnel may be recruited:

- Applications introduced by friends and relatives. *good network*
- Consulting agencies. *specialised executive personnel*
- Campus recruitment.
- Casual callers *on own initiative*
- Through advertisement.
- Field trip and college recruitment
- Employment exchange.
- Labour contractors. *unskilled contractors*.
- ❖ **Applications Introduced by friends and relatives:** Often the employees introduce their relative's application to find a good job for them. Many companies prefer to take such candidates because their background can be

known. In this way a good worker can bring a good worker. However this may lead to nepotism and favouritism.

- ❖ **Consulting agencies:** A consulting agency is commonly utilised to find specialised executive personnel. It either helps the personnel department by supplementing its efforts or work on its behalf. In such a situation, the agency must understand and estimate correctly the client's past experiences, history and future projections.
- ❖ **Campus recruitment:** As a large numbers of management institutes like IIM, XLRI, IIT etc., are engaged in giving the professional training, many companies find it easier to pick up the best talent straight from the institute to fill its managerial position. In fact these professional institutes have provided recruitment source to firms.
- ❖ **Casual callers:** Sometimes on his own initiative, the applicant sends his application for the job. The personnel office keeps the record of applications and the suitable candidates can be selected from the callers.
- ❖ **Through advertisements:** Companies advertise in the newspaper for their vacancies. Generally the senior posts are filled by this method when they can't be filled by promotions. The advertisement gives a wide range of choice. It also depends upon the employers fame. If the name is not reputed one some of the good personnel do not apply.
- ❖ **Field trips and college recruitment:** This method is being used for private industrial firms. These firms send their selecting teams to respective colleges and universities, interview the candidates who are nearing completion of their studies and make selection. This is no doubt very expensive and time consuming but has the advantage of choosing the cream from the lot.
- ❖ **Employment exchange:** The recruitment is also done through the employment exchange of the persons who are enrolled in the exchange. The main function of the exchange are:
  - To supply informations about persons in need of jobs and about jobs that are available.
  - To direct persons to factories where suitable jobs exist.
  - To develop job specification.
  - To procure information about current wage rate.
  - To introduce selected employees with personnel department and policies of the company.
  - To follow up the new recruits for initial adjustments.

- To look-after the employee canceling and operating the system seriously.
- To keep records of employees, hired, resigned, discharged and transferred.

**Labour Contractors:** The casual vacancies may be filled up by the company through labour contractors. Usually unskilled candidates are appointed in this manner.

### **REVIEW QUESTIONS**

1. Explain the nature and importance of staffing.
2. What are the various elements of staffing? Explain.
3. Explain the techniques of selection.
4. What are different types of interview techniques?  
*structural & non-structural*
5. Explain group discussion.
6. What is recruitment? Explain various sources of recruitment.
7. Differentiate between recruitment and selection.

## CHAPTER 6

# DIRECTING

### 6.1 MEANING AND NATURE OF DIRECTING

Direction means issuing of orders, leading and motivating subordinates as they go about executing orders. It is also defined as the process and techniques used for issuing instructions to carry out a job and making sure that the operations are carried out as per the plan.

Directing is the interpersonal aspect of managing by which subordinates are led to understand and contribute effectively and efficiently to the attainment of enterprise objectives. The direction has two major activities namely (i) giving orders to employees and (ii) leading and motivating them to accomplish the goals.

#### Definition of direction:

“Directing is the interpersonal aspect of managing by which subordinates are led to understand and contribute effectively to the attainment of enterprise objectives.” (Harold D Koontz & O'Donnell)

“Directing consists of the processes and techniques utilized in issuing instructions and making certain that operations are carried on as originally planned”. (Haimann) <sup>→ Sure</sup>

“Direction is telling people what to do and seeing that they do it to the best of their ability. It includes making assignments, corresponding procedures, seeing that mistakes are corrected, providing on-the-job instruction and issuing orders”. (Ernest Dole)

“Directing is the guidance, the inspiration, the leadership of those men and women that constitute the real core of the responsibilities of the management”. (Urwick and Breach)

#### (Principles of Direction: ) 1

The role of a manager is to understand the needs, motives and attitudes of his subordinates. He should use appreciate strategies according to the people and situations. The following are some of the principles of effective direction:

##### (i) Harmony of objectives:

For an organization to function well, if the goals of company and goals of individuals are in complete harmony. It is very uncommon for such a situation

to exist in any organization. Individual goals may differ from the goals of the organization. The manager should coordinate the individual goals to be in harmony with the goals of the organization.

**(ii) Unit direction of command:**

This principle implies that an employee should receive orders and instructions only from one supervisor or boss. Otherwise, there may be indiscipline and confusion leading to conflicting orders, divided loyalties and reduced results.

**(iii) Efficiency:**

If the superior consults with the subordinates in decision-making, then there would be a sense of commitment. This makes the direction easy and improves the efficiency of subordinates.

**(iv) Direct supervision:**

Managers should have direct face-to-face contact with the subordinates. Personal touch with subordinates will ensure successful direction.

**(v) Effective communication:**

The supervisor must have good communication skills. He must clearly communicate the plans, goals, policies, responsibilities and the duties to the subordinates. In communication, comprehension is more important than the content.

**(vi) Effective control:**

The management should monitor the behaviour and performance of subordinates to exercise effective control over subordinates.

**(vii) Follow-through:**

Direction is a continuous process. Having given the directions may not ensure carrying out them. Hence a manager should follow-through the performance of his subordinates. Follow up is very important function of direction.

## 6.2 LEADERSHIP

Leadership is an important aspect of managing. Leadership is defined as "Influence, that is, the art or process of influencing people so that they will strive willingly and enthusiastically towards the achievement of group goals". (Koontz and Weihrich) In other words, people should be encouraged to develop

not only willingness to work but also willingness to work with zeal and confidence.

"The will to do is triggered by leadership and lukewarm desires for achievements are transformed into burning passion for successive accomplishment by the skilful use of leadership" (George R Terry).

"Leadership is the lifting of man's visions to higher sights, the raising of man's performance to a higher standard, the building of man's personality beyond its normal limitation". (Peter Drucker)

✓ "Leadership is the ability to secure desirable actions from a group of followers voluntarily without the use of coercion." (Alford and Beatty)

"Leadership is the ability to persuade others to seek defined objectives enthusiastically. It is the human factor which binds a group together and motivates it towards goals". (Keith Davis)

### 6.3 LEADERSHIP STYLES

There are 3 widely used leadership styles or leadership approaches viz., Traits approach, Behavioural approach and Contingency approach. *→ These traits are*

#### 6.3.1 Traits approach

- 1) Personal abilities
- 2) Some ppl are leaders by birth

Trait is basically a character and early notions about leadership dealt with personal abilities. It was believed that some people have leadership qualities by birth or god's gift. The traits that associate with leadership are identified as: mental and physical energy, emotional stability, knowledge of human relations, empathy, objectivity, personal motivation, communication skills, teaching ability, social skills, technical competence, friendliness and affection, integrity and faith, intelligence etc.

This approach has several drawbacks:

7) Drawbacks are : (4)

- ✓ It failed to identify right traits required for effective leadership.
- ✓ It is difficult to associate the traits with jobs to be carried out. A leader who is successful in one area may be a failure in different area.
- ✓ Since these are subjective, it is difficult to measure their effectiveness quantitatively.
- ✓ This approach implies that leadership is in-built quality and no training can make a person leader.

#### 6.3.2 Behavioural approach

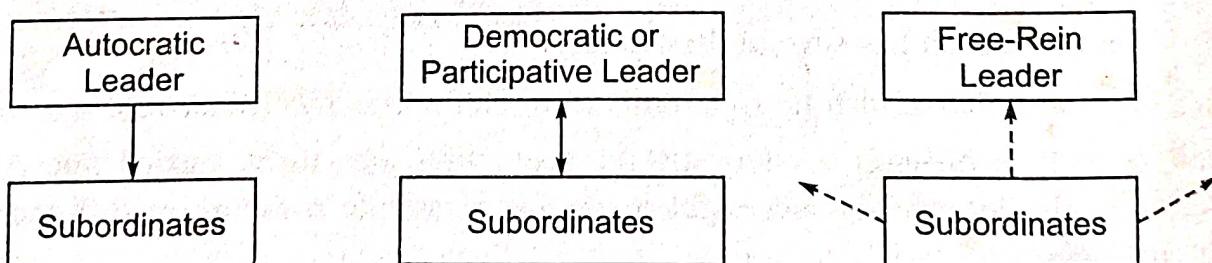
Several studies have been made did not agree as to which traits are leader-

ship traits or their relationship to actual instances of leadership. It is found that most of these so called traits are really pattern of behaviour.

There are several theories based on leadership behaviour and styles. Some of them are:

- (i) Leadership based on the use of authority.
  - (ii) Likert's four systems of managing.
  - (iii) The managerial grid and
  - (iv) Leadership involving a variety of styles and level of use of power and influence.
- (i) Style based on authority:** Based on how the authority is used, the leaders are styled into 3 groups.
- The first is "autocratic leader" who commands and expects compliance, is dogmatic and positive, and leads by the ability to withhold or give rewards and punishment.
  - The second is "democratic or participative leader" who consults with subordinates on proposed actions and decisions and encourages participation from them. This type of leaders include the person who does not take action without the concurrence of subordinates and who makes decisions but consults with subordinates before doing so.
  - The third type is "free-rein" leader who uses his power very little and gives a high degree of independence to his subordinates to carryout their work. Such leaders depend largely on subordinates to set their own goals and the means to achieve.

Figure below shows the flow of influence in the three situations of leadership.



The flow of influence with three leadership styles

There are some variations within this simple classification of leadership styles. Some democratic leader may consult and listen to their followers ideas and concerns, but when decision is to be made, they make their own decision. A participative leader is the person who is supportive. They consult with their subordinates and take their opinions, feelings and suggestions before making decision.

- Takes decisions after consultation.
- Encourages participation of subordinates to work.
- Improves attitude of employees towards job.
- Provides freedom of thinking, steps to success.

The use of any style will depend on the situation. A manager may be autocratic in routine and emergency tasks. Leaders gain considerable knowledge and better commitment on the part of persons involved by consulting with subordinates whereas 'free-rein' type leadership works better in R & D organizations.

### Comparison of leadership styles

Factor	Leadership style		
	Autocratic	Participative	Free-Rein
1. Decision maker	Leader only	Leader in consultation with subordinates	Subordinates only
2. Discipline	Obey the leader	Cooperative	Self-imposed
3. Delegation of authority	Rare	Good	Complete
4. Responsibility	Leader	Leader and subordinates	Individuals
5. Initiative	By leader	By team	Only by individuals
6. Communication	One way and downward	Both ways	Free flow
7. Motivation	Punishments	Rewards	Self motivated
8. Hierarchy of needs	Physiological and safety	Mixed	Self attenuation
9. Focus	Task oriented	People oriented	People

- (ii) **Likert's four systems of management:** Prof. Likert had developed four systems of management based on his study of patterns and styles of leadership.

**System 1:** Management is described as "exploitive-authoritative". Its managers are highly autocratic, have little trust in subordinates. They motivate people through fear and punishment, only occasional rewards, engage downward communication and limit decision making to the top.

**System 2:** This is called "benevolent authoritative". Its managers have a patronizing confidence and trust in subordinates, motivate them with rewards and some fear and punishment, allows little upward

communication, solicits some ideas and opinions from subordinates, allows some delegation of decision making but with close policy control.

(3)

**System 3:** This is referred to as "consultive" management. Managers in this system have substantial but not complete confidence in subordinates. They usually try to make use of the ideas and opinions of subordinates, rewards for motivation, occasional punishments, engage in communication in both up and down and act like a consultant to both top and subordinates.

(4)

**System 4:** This is most participative type and hence it is often called as "participative-group". These managers have complete trust and confidence in subordinates in all matters. They always get ideas and opinions from subordinates and use them for constructive purpose. They give monetary rewards, encourage decision making and work with subordinates as a group.

- (iii) **The managerial grid:** A well-known approach to defining leadership styles is the managerial grid developed by Robert-Blake and Jane Mouton. Building on previous history which dealt with managers concerned with both people and production, they devised a two dimensional grid based on people and production. "Concern for production" on X-axis of grid includes the attitudes of a supervisor towards a variety of things such as quality of policy decisions, procedures, creativeness, staff services, work efficiency, volume of output etc. "Concern for people" is taken on Y-axis of grid. This includes elements like degree of personal commitment towards good achievement, maintenance of self-esteem of workers, placement of responsibility on the basis of trust rather than obedience, provision of goal working conditions and maintenance of satisfying interpersonal relations.



The managerial grid is a useful device for identifying and classifying managerial styles, but it does not tell how to lead

- (iv) **Leadership involving a variety of styles:** This concept is also called as leadership continuum. It is seen that the leadership involves a variety of styles ranging from one which is highly boss centered to the other which is highly subordinate concerned. The style vary with the degree of freedom a leader or manager grants to his subordinates. Thus instead of suggesting a choice between two extreme styles of leadership autocratic and democratic, this approach offers a range of styles with no suggestion of what is right and what is wrong. This theory recognizes that which type of leadership is appropriate depends on the leader, the subordinates and the situation.

1) which is the most suitable form  
based on lead, ppl, org.

No one leader is best.  
Some are best for some situations.

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### 6.3.3 Contingency approach to leadership

The behavioural approach seems to suggest that the best style of leadership is one that combines both autocratic and democratic. There is no one best style of leadership under all conditions. Effective leadership style varies with situation. The effective leaders need to analyse the situation and find the most appropriate and best-suited style for a given environment. (Contingency approaches have much meaning for managerial theory and practice.)

## 6.4 MOTIVATION ✓

### 6.4.1 Introduction

Management is an art of getting the work done by the people and thereby achieving the best results. Getting the work done, depends upon the inducement of the people to better their performance by inspiring the personnel with a zeal to do work for the accomplishment of objectives of the organization. It may rightly be called motivation of people, the most important function of the personnel management. Management should constantly provide for incentives or motivating forces to intensify their desire and willingness to apply their potentialities for the achievement of common objectives. Some people may be motivated by the intense outer pressures of reward while some others are self-motivated.

Motivation is derived from 'motive'. Motive means any idea, need, emotion or organic state that prompts a man to an action. Motive is an internal factor that integrates a man's behaviour. As the motive is within the individual, it is necessary to study the needs, emotions etc., in order to motivate him to do work. There are certain inducing factors which influence the man's behaviour and induce him for the best performance to meet his needs and emotions. So motivation is a process to get the needs of the people realised with a view to induce him to do work. Indeed motivation is nothing but an action of induction.

Motivation has been defined by Edwin B. Flippo as follows:

- Motivation is the process of attempting to influence others to do your will through the possibility of gain or reward.
- Motivation is the process consisting of the three parts (a) motives, (b) the needs, drives, desires, aspirations etc., which are the motivating factors (c) attainment of the objectives.

### 6.4.2 Characteristics of Motivation

The following are the characteristics of motivation.

- **Motivation is a Psychological Concept:** Motivation should come from inside each individual. There are two desiring factors, in motivation:
  - (i) Fundamental needs, such as food, clothes and shelter and
  - (ii) Ego-satisfaction including self-esteem, recognition from others, opportunities for achievement, self-development and self-actualisation, which act as powerful, though unconscious, motivators of behaviour.
- **The whole individual is motivated, not part of him:** A person's basic needs determine to a great extent what he will try to do at any given time. All these needs are interrelated because each individual is an integrated organised whole.
- **Motivation is an unending process:** Man is a social animal. As a social animal he has innumerable wants which induce him to work. If one basic need is adequately satisfied for a given individual it loses power as a motivator and does not determine his current behaviour, but at the same time other needs continue to emerge. Wants are innumerable and cannot be satisfied at one time. It is an unending process so the process of motivation is also unending to induce the person to satisfy his innumerable wants.
- **Frustration of basic needs makes a man sick:** If anybody fails in trying to meet a need which he feels is essential for him, he becomes to some extent, mentally ill and such frustrated man cannot be motivated any further, until his essential need is satisfied.
- **Goals are motivators:** Goals and motives are inseparable. Man works to achieve the goals. As soon as the goal is achieved he would be no longer interested in work. Therefore, it is very essential for the management to know his goal to push him to work.
- **The self-concept as a unifying force:** Unifying force means the drive to actualise his own image of himself. The outlines of a person's self image are fairly well checked in early childhood and thereafter do not act inner change. For example, a child who easily sees himself as a leader, will if possible try to behave that way in later life. Thus, two things that individual is always trying to do are:
  - (i) to act like the person he thinks he is, and
  - (ii) to get what he thinks he can.

Motivation is an important function of personnel management because management of personnel means getting the work done by the people to achieve the organizational objectives. Motivation is one of the methods to induce the

# CONTROLLING

Controlling is the last function of management. The main objective of control is to identify the variations between the set standards and actual performance and then to take necessary steps to correct it and prevent such deviations in future.

## 7.1 (DEFINITION)

“Control is checking current performance against predetermined standards contained in the plans with a view to ensure adequate progress and satisfactory performance” — E.F.L. Brech.

“Control consists of verifying whether everything occurs in conformity with the plans adopted, the instructions issued and principles established. It has for its object to point out weaknesses and errors in order to rectify them and prevent recurrences” — Henri Fayol.

“Controlling is determining what is being accomplished, that is, evaluating the performance and if necessary, applying corrective measures so that the performance takes place according to the plans” — George R. Terry.

“Controlling is the measurement of accomplishment against the standards and the correction of deviations to assure attainment of objectives according to plans” — Koontz and O’Donnel.

## 7.2 STEPS IN CONTROLLING

Control points out the deviations of the plans and suggests remedial action to improve future plans. There are three steps in control process.

- (i) Establishing standards
  - (ii) Measuring and comparing actual results against standards
  - (iii) Taking corrective action
- (i) **Establishing standards:** (The first step in any control process is to establish standards against which results can be measured. Standards are criteria of performance. Standards may be qualitative or quantitative. Standards like, costs should be reduced, communication is to be faster, goodwill, employees morale etc., are some examples of qualitative standards. Number of units produced, profit percentage, standard hours, total cost incurred, overheads etc., can be expressed quantitatively.)

- 1) First Step.
- 2) Criteria is the std.
- 3) Qualitative / Qty.

- 4) egs.
- 5) Com. & Loss.

Standards are to be flexible in order to adapt to changing conditions. Standards should emphasise the achievement of results more than the conformity to rules and methods. (The standards could be of physical standards, cost standards, revenue standards, capital standards, intangible standards etc.)

(ii) Measuring and comparing actual results against standards: (The second step in control process is to measure the performance and compare it with the set standards. Measurement of performance can be done by personal observation or by a study of various summaries, of figures, reports, charts and statements.) Comparison is very easy if the system of control is well defined. Several established techniques are available for quick comparison. Some variations are desirable like excess production, reduced expenditure than standard etc. When the actual performance matches with standards, no corrective action is required. However, if the standards are not achieved, then the management should initiate necessary corrective action. If the deviations are beyond the reasonable limits then they should be reported to the top management.

(iii) Taking corrective action: After comparing the actual performance with the set standards and noticing the deviations, the next important step is to take corrective action by managers. The causes of deviation may be due to ineffective communication, defective system of wages, wrong tools and machines, negligence from worker, lack of training, ineffective supervision, inadequate facilities etc. The management has to take necessary corrective action based on the nature of causes of deviation.

Managers may correct deviations by redrawing their plans, or by modifying goals, they may use their authority through reassignment of job to others, or by putting additional staff, or providing extra training, better tools and by better leading.

### 7.3 ESSENTIALS OF A SOUND CONTROL SYSTEM

The essentials of a sound control system are as follows:

- (i) **Feedback:** Feedback is the process of adjusting future actions based upon the information regarding past performance. Feedback makes the control system very effective.
- (ii) **Objective:** Control system should be objective and understandable. Objective controls specify the expected results in clear and definite terms and leave little scope for argument by the employees. They avoid aristocracy.
- (iii) **Suitability:** The control system should be appropriate to the nature

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and needs of the activity. The controls used in production are different than the one used in finance and personnel. Hence every organization should evolve suitable control system that serves specific needs.

- (iv) ***Prompt reporting:*** The control system should provide for prompt and timely reporting without any delay. Delayed reporting may lead to ineffective control actions. Prompt reporting will help the managers to take immediate corrective action before the problem occurs.
- (v) ***Forward looking:*** Effective control system must focus on how the future actions will conform to plans.
- (vi) ***Flexible:*** The standards will be altered from time to time. Hence the control system should be flexible in accordance with the modified standards.
- (vii) ***Economical:*** The benefits derived from the control system should be more than the cost involved in implementing it.
- (viii) ***Simple:*** The control system should be simple to understand and implement.
- (ix) ***Effective and operational:*** A control system should not only detect deviations but should also provide solutions to the problems that cause-deviations. It must disclose where and how the failures are occurring, who is causing them and how they should be dealt with.
- (x) ***Motivation:*** A good control system should motivate people to achieve higher performance. The control is to be so designed that it induces positive reactions from employees. The purpose of control is to prevent and not to punish.

## 7.4 METHODS OF ESTABLISHING CONTROL

Various methods are used by the management for controlling the various deviations in the organization. Some of the important methods of establishing control are discussed below:

- (i) ***Personal observation:*** This is the oldest and simple method of control. The manager personally observes the operations in the work places. Any deviations observed are corrected immediately then and there itself. However, this is a time consuming technique and may not be liked to be observed by workers.
- (ii) ***Budgeting:*** A budget is a statement of anticipated results during a designated time period expressed in financial and non-financial

terms. The budgeting process typically involves the use of cost standards. Budgets are made for a specific period like monthly, quarterly or annually. The budgets are prepared on the basis of the purpose like sales budgets, capital expenditure budget, advertisement budget, R and D budget etc.

- (iii) **Cost accounting and cost control:** Profit of any business depends upon the cost incurred to run the business. Profits are increased by reducing costs. Hence, much importance is given for cost accounting and cost control.
- (iv) **Break-Even analysis:** The point at which sales is equal to the total cost is known as Break-Even Point (BEP). At this point there will be no loss or no profit. The total cost is the sum of fixed cost + variable cost. Fixed cost is fixed irrespective of production but variable cost changes according to the volume of production. This analysis helps in determining the volume of production or sales and the total cost which is equal to the revenue. The excess of revenue over total cost is profit.
- (v) **Standard costing:** Standard costing is used to control the cost. The objective of standard costing is the same as budgetary control. The system compares the actual with standards and variance is noted. The following are the steps involved in standard costing.
  - (a) Setting the cost standards for various components like labour, material, machine hour rate etc.
  - (b) Measurement of actual performance and comparing with standard cost.
  - (c) Find the variance of actual cost compared to standard cost.
  - (d) Taking corrective measures to avoid such variances to occur in future.
- (vi) **Return on investment (ROI):** Ratio of net profit to the total investment or capital employed in the business is termed as return on investment, generally expressed as percentage.

$$\text{ROI} = \frac{\text{Profit}}{\text{Total Investment}}$$

Using this the percentage of profit is identified. The amount of profit earned by a company is different from the rate of profitability.

- (vii) **Responsibility accounting:** It is defined as the system of accounting under which each departmental head is made responsible for the

performance of his department. Under this system, each department is made a profit center. The individual department is responsible for its own operation.

- (viii) **Management audit:** Management audit is an independent process that aims at pointing out the inefficiency in the performance of functions of management such as planning, organizing, staffing, directing, controlling and suggesting possible improvements. It helps the management to handle the operations effectively.
- (ix) **Internal audit:** Internal audit is conducted by an internal auditor who is an employee of an organization. He makes an independent appraisal of financial and other operations. He identifies the defects and deviations and reports to management.
- (x) **External audit:** External audit is an independent appraisal of the organization's financial accounts and statements. The purpose of external audit is to safeguard the interests of shareholders and other outside parties concerned with the company. It is also known as statutory audit control. The external auditor certifies the compliance of all accounts. The external audits are conducted by qualified auditors.
- (xi) **Statistical control reports:** This type of reports are prepared and used by large organizations. They are quantitative in nature. These reports are very useful in sales, production, etc. There are various statistical tools available for this purpose.
- (xii) **Gantt milestone chart:** This technique was proposed by Henri I. Gantt. This is basically a time based production control technique. This is widely used to monitor the progress of projects. This a two dimensional chart with activities on vertical and time on horizontal scale. This is basically a schedule of activities against time.
- (xiii) **Production control:** Production control technique is necessary for smooth functioning of an organization. Production control involves forecasting and planning of production, inventory control, scheduling, selection of process etc.
- (xiv) **Programme Evaluation and Review Techniques (PERT):** This was developed during 1957-58 for US Navy. This is primarily oriented towards achieving better managerial control of time spent in completing a project. A project is split into activities and all the activities are integrated in a highly logical sequence to find the shortest time required to complete the entire project. PERT was created primarily to handle R & D projects.

(xv) **Critical Path Method (CPM):** This technique also follows the principles of PERT. This concentrates mainly on cost rather than duration like PERT. The use of both PERT and CPM has grown rapidly today in controlling time bound projects such as repairing a weak bridge, construction of huge buildings etc.

### **REVIEW QUESTIONS**

1. Define controlling.
2. State and explain the steps in controlling.
3. What are the essentials of sound controlling?
4. Explain the methods of establishing sound controlling. ✓
5. What is the need of fixing standards?